



Rating Rationale

Vishal Fabrics Limited

4 August 2021

Brickwork Ratings reviews the ratings of the Bank Loan Facilities of Rs. 371.81 Crores (INR Three Hundred Seventy One Crore and Eighty One Lakhs Only/-) of Vishal Fabrics Limited (VFL or ‘the Company’).

Particulars

Facility	Amt Rated (Rs. Crs)		Tenure	Previous Rating (August 2020)	Present Rating
	Previous	Present			
Fund Based – TL	158.29	185.81	Long Term	BWR A- (Negative)	BWR A- (Stable)
Fund Based – CC	160.00	160.00			
Non Fund Based	26.00	26.00	Short Term	BWR A2+	BWR A2+
Total	344.29	371.81	(Three Hundred Seventy One Crore and Eighty One Lakhs Only)		

^ Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Rating Action: Rating Reaffirmation with Change in Outlook

BWR reaffirms the rating of BWR A- / A2+ for the bank loan facilities. The “Stable” outlook reflects the consistent recovery in performance of the company after the improvement in Covid-19 situation and sustainability of performance based on the order book and current trends.

The ratings continue to take comfort from established experience of the promoters in the textile industry, sound operating performance with comfortable capital structure, eligibility of Company’s capex to various state and Central Government Incentives available in the form of subsidies.

The ratings are, however, constrained by cyclical risks associated with the textile industry, large capacities created in Gujarat due to the present supportive policies of the State Government not matched by the incremental demand, and working capital intensive nature of business.

Descriptions of Key Rating Drivers

Credit Strengths:-

- **Gradual improvement in operating performance since 2QFY21:**
After pandemic related set-back in 1QFY21 performance, there has been gradual improvement in operating performance since 2QFY21 as given below:

Rs. Cr	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22
Turnover	67.35	220	294.05	388.1	294.94
EBITDA	5.41	17.69	26.2	40.75	31.01
Margin (%)	8.0%	8.0%	8.9%	10.5%	10.5%

Denim division contributed to 77% of total revenue with balance contributed by process house. The process house of VFL is a debt-free unit earning EBIDTA margin of around 8.5%-9% annually. The EBIDTA margin of denim division has improved from 5.06% in FY17 to 10% in FY21 due to ramp up in denim operations. The Denim division of the Company caters to the premium segment and earned sales realization of Rs.180 per meter in FY21.

Further, the company was also able to avail Covid loan of Rs. 16 Cr and Emergency Credit line Guarantee Scheme (ECLGS) loan of Rs. 52.69 Cr which added to the liquidity of the company and reduced the stress on working capital.

- **Integrated operations with proximity to raw-material source provide advantage over its peers:** The VFL's manufacturing facilities are located at DISP, in close proximity to the cotton growing belt in Gujarat. In order to backward integrate its operations, it has established entities in spinning, dyeing, weaving and processing, which enables better management of its cost structure and aids in higher profitability against its competitors.
- **Incentives:** The Company is eligible for State and Central Government subsidies such as 10% capital subsidy for Plant and Machinery, 5% interest subsidy under state textile policy and GST refund for raw-materials.
- **Experienced Promoters:** VFL has been promoted by Shri Brijmohan Chiripal who has nearly four decades of experience in the fabric and yarn business and marketing of knitted apparels. The management consists of a team of experienced and qualified professionals who are responsible for day-to-day operations of the Company.
- **Part of Reputed Chiripal Group:** The Company belongs to CHIRIPAL group which has a strong presence in the textile industry and has developed strong brand presence. Chiripal Group, which started in 1972 as a manufacturer of fabric under the leadership of Shri Vedprakash Chiripal, is presently one of the largest manufacturers and exporters of various types of textiles and BOPP film products in India.

The Company has established market presence and long standing relations with clients due to which it holds a strong market position.



- **Comfortable Coverage Ratios:** The Company had a gearing ratio of 1.1x excluding the unsecured loans from promoters of Rs.92.5 Cr as on March 31, 2021. With the gradual improvement in profitability ISCR improved from 0.7x in 1QFY21 to 3.6x in 1QFY22.

Credit Risks:-

- **Working capital intensive nature of business:** The operations of the Company are working capital intensive considering the level of inventory and receivables levels, and consequent higher percentage utilization of their working capital limits. For the last 12 months, the average utilisation level of the working capital limits was 85%. Further, cash conversion cycle increased from 48 days in FY20 to 91 days in FY21 owing to increase in receivables days from 78 to 126 and inventory days from 20 to 27. Higher Receivable days in FY21 was as a result of liquidity crisis in entire textile industry owing to pandemic. As on March 31, 2021 total outstanding receivables were Rs.361.2 Cr. It has reduced to approximately Rs.300 Cr as on June 30, 2021 with the receivables days coming down to 85 days as informed by the management with improvement in liquidity conditions all across.
- **Industry and Competition Risk:** Industry Risk relating to textile is considered moderate, due to the nature of its operations, and also because of the high capacities created in the recent years in the State of Gujarat, as also due to compressed margins. Although the Company has expanded towards premium quality products, and there are linkages with companies belonging to promoters/Group, the margins can come under pressure.

Analytical Approach

Vishal Fabrics Ltd. is rated on a stand-alone basis. However, it is recognised that the promoters belong to the reputed Chiripal group of textile industries.

Rating Sensitivities:

Credit Positive: Improvement in operating performance with improved realisations and improvement in capital structure will be credit positive.

Credit Negative: Deterioration in operating performance with decrease in margins and delay in realisation of fiscal incentives will be credit negative.

Liquidity (Adequate): As on June 30, 2021, the company had the liquidity of Rs.61 Cr with cash and cash equivalent of Rs.7.1Cr and unused bank lines of Rs.53 Cr. CPLTD as on March 2021 was Rs.43.94 CR of which Payment of first instalment of Rs. 10.99 Cr was done on June 30, 2021. The next instalment of Rs.10.99 Cr is due on September 30, 2021. The company has sufficient liquidity to meet the debt repayment. Further, the company has also received the sanction of Covid Loan of Rs. 11.71 CR and ECLGS loan of Rs52.69 Cr which has further added to the liquidity of the company.



About the Company

Vishal Fabrics Limited (“VFL” or “Company”), incorporated in 1985 is a part of the Ahmedabad based Chiripal Group (“Chiripal” or “Group”). It is primarily engaged in the business of dyeing, printing and processing of fabrics of its own and also on a job work basis. The Company procures mainly gray fabric and dyes, prints and finishes the same as per the client’s requirements. The processing unit of the Company is based in Narol, Ahmedabad (Gujarat) with an installed capacity of 1200 lakh mtr / annum.

VFL has entered into denim processing business by setting up of 8 units in Dholi, Gujarat having the capacity of 800 lakh mtr/annum.

The Company went public in 2014 and is listed on BSE. As on June 30, 2021 more than 65% of the holdings is with the promoters.

Mr. Brijmohan Chiripal is the Chairman and Managing Director of the Company.

Group Profile:

The Chiripal Group, which started in 1972 as a manufacturer of fabric under the leadership of Shri Vedprakash Chiripal, is presently one of the largest manufacturers and exporters of various types of textile and BOPP films products in India. The group over the years has grown into a vertically integrated enterprise having manufacturing facilities for POY, texturizing, cotton spinning, denim weaving, knitting and processing, home furnishing, garmenting and BOPP films. The group also has a significant presence in the international markets and is currently exporting textiles & garments to various international brands and wholesalers in Europe, USA, Canada, South America, Middle East, Gulf and African countries. The Group has also diversified its business activities in the fields of industrial parks and education.

Company Financial Performance

Rs. Crore	FY20	FY21
	Audited	Audited
Total Operating Income	1299.15	969.32
Operating Profit	105.72	90.04
Net Profit	30.92	18.1
Total Debt	377.48	386.91
Unsecured Loans from Promoters	93	93
Adjusted Debt	285	294
Tangible Networth	246.89	265
Gearing (x)	1.2	1.1



Current Ratio	1.6	1.7
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Status of non-cooperation with previous CRA (if applicable): NA

Any other information: NA

Rating History for the last three years (Including Withdrawn Suspended Ratings)

Sn	Instrument/Facility (Rs Crs)	Current Rating (Year 2021)			Rating History				
		Type	Amt	Ratings	11-Aug-20	28-Mar-20	26-Mar-19	22-Jan-19	13-Dec-17
1	Fund Based – Term Loan	Long Term	185.81	BWR A- (Stable)	BWR A- (Negative)	BWR A- (Stable)	BWR BBB+ (Stable)	BWR BBB+ (Stable)	BWR BBB+ (Stable)
2	Fund Based – Cash Credit	Long Term	160	BWR A- (Stable)	BWR A- (Negative)	BWR A- (Stable)	BWR BBB+ (Stable)	BWR BBB+ (Stable)	BWR BBB+ (Stable)
3	Non Fund Based	Short Term	26	BWR A2+	BWR A2+	BWR A2+	BWR A2	BWR A2	BWR A2
			371.81	(Rupees Three Hundred Seventy Once Crore and Eighty One Lakhs Only)					

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Short Term Debt](#)
- [Criteria for rating of Manufacturing Companies](#)

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ANNEXURE I

Details of Bank Facilities rated by BWR

Rs. Crore

BANK NAME	TERM LOAN	COVID	ECLGS	FUND BASED	NON FUND BASED	TOTAL
	OUTSTANDING – 1-July-2021	OUTSTANDING – 1-July-2021	OUTSTANDING – 1-July-2021	SANCTION	SANCTION	
Bank of Baroda	43.39	2.67	14.76	40	7	107.82
Bank of Maharashtra	29.09	2.67	16.25	40	7	95.01
State Bank of India	26.78	0	6.88	0	0	33.66
Punjab National Bank	11.37	1.1	5.16	14	2	33.63
Lakshmi Vilas Bank	10.78	0	0	0	0	10.78
South Indian Bank	0	1.67	3.76	20	1	26.43
BANDHAN Bank	0	2.08	2.33	25	5	34.41
Union Bank of India	0	1.52	3.55	21	4	30.07
TOTAL	121.41	11.71	52.69	160	26	371.81

Rupees Three Seventy One Crore and Eighty One Lakhs Only.

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